



Letter from the President of the Management Board of PKN ORLEN

Ladies and Gentlemen,

Dear Shareholders,

2010 was in many respects a breakthrough year for PKN ORLEN. The consistent pursuit of our strategy adopted two years earlier put the Company firmly on its feet, as evidenced by the robust financial and operating performance delivered in 2010. PKN emerged from the global crisis with renewed strength, which manifested itself in lower debt, higher operating efficiency, reinforced brand and larger sales volumes, as well as a considerably higher share price. We won back the trust of investors, Shareholders and rating agencies, having solidified our position in the region. Consequently, we are now solidly positioned for continued growth.

Last year, we posted the highest ever annual separate operating profit of PLN 2.8bn, with net profit of PLN 2.4bn – the best net result in three years. The maintenance of crude oil throughput at 14.5 million tonnes, supported by a recovering economy, allowed us to achieve sales volumes in the range of 15 million tonnes, with the retail sector's performance deserving a special mention. The enhanced operating efficiency and optimisation efforts helped us significantly reduce the debt burden (by PLN 2.5bn) and deleverage our business to 39% as at the end of 2010 on a consolidated basis. In 2010, work on Poland's largest optimisation and efficiency enhancement programme, worth more than PLN 5bn, was carried on. The achieved results made us much stronger financially and more stable. Moreover, the consistent and effective efforts undertaken by PKN ORLEN did not go unnoticed by rating agencies Fitch and Moody's, which upgraded the Company's rating outlook from negative to stable. Our achievements were also appreciated by capital markets – in 2010 PKN ORLEN's share price soared by nearly 35%, relative to a less than 15% rise of the WIG 20 blue-chip index.

A solution that contributed to optimising our working capital and thus considerably deleveraging our business was a changed formula under which we store mandatory stocks of crude oil. PKN ORLEN was the first company in Poland to execute transactions under the new formula, having concluded the relevant agreements within the framework of applicable Polish and EU laws. The innovative solution allowed us to free up cash in the amount of PLN 1.7bn.

Despite having to struggle for the past two years with the financial crisis and then with the restless post-crisis environment, in 2010 we achieved all our objectives in the area of strategic technology-related capex projects, aimed to expand the capacities of the refinery and petrochemical complex in Płock, enhance the quality of refined products and extend the value creation chain in the area of petrochemicals.

In line with our plans, we put into operation the hydrogen generation facility and commissioned the HON VII diesel oil desulphurisation unit, having completed the technical stage of the projects involving the construction of the paraxylene unit (PX) in Płock and the terephthalic acid (PTA) unit in Włocławek.

We also implemented a programme designed to allow the Company to diversify into a power generation business. A first step in that direction was made when we started to construct the most technologically advanced steam boiler in Poland, one of a series of projects scheduled to be executed within the Production Complex in Płock by the end of 2017. The construction of a product pipeline connecting the terminals in Ostrów Wielkopolski and Wrocław was also brought to completion, having strengthened our position in fuel logistics.

Divestment of non-core assets (stakes in Polkomtel and Anwil) is another element of our long-term plan aimed to bolster PKN ORLEN's financial standing and raise funds to keep up its current pace of growth. Work related to divestment of Polkomtel shares carried out last year took the process to the most advanced stage yet. As for Anwil shares, the prevailing market conditions were not conducive to a potential sale transaction, as a result of which we found the financial bids submitted by prospective buyers to be less than satisfactory. Analytical work was therefore undertaken to identify the potential of separate sale of two parts of Anwil's production business, after splitting it up into the fertiliser and PVC segments.

We remained firmly committed to our efforts aimed to turn the Company into a multi-utility operation, albeit the envisaged transformation will take a long time and require heavy investment. Evolution towards a multi-utility business model is in line with broader trends observed on global energy markets and is currently one of the key goals we want to pursue. Our efforts in that area include the exploration work on the Baltic shelf and near the town of Sieraków. Towards the end of last year, we also concluded an agreement with the Ukrainian Ministry of Environmental Protection. The access to Ukrainian hydrocarbon plays will allow us to benefit from new production opportunities. As preliminary tests of the shale gas plays in the Lublin region showed them to be prospective, we also feel encouraged to develop and strengthen our unconventional gas capability. We believe that – in line with worldwide trends – production of unconventional gas may become an important driver of our future growth. Preparatory projects are underway to bring on stream the deposits located in Poland and on the Latvian shelf. In 2011, we expect to spud the first wells to investigate the shale gas potential of the Lublin area.

We are also taking steps with a view to developing a power generation business. In 2010, preparations to construct a 400-500 MW gas-fuelled power plant in Włocławek entered a new stage. Following an environmental impact assessment process, we secured two key decisions: an environmental permit and a decision to establish a grid connection, which will allow us to embark on further stages of the project.

As the largest business player in Poland, we are not only involved in key developments related to the fuel industry, but are also active in initiating public debate about the crucial economy-related issues. Last year, we started a series of conferences created and organised by PKN ORLEN under the title *"Future Fuelled by Knowledge"*. The first event in the series, entitled *"1990-2010-2030. How Much State in the Market, How Much Market in the State"*, which focused on Poland's economic transformation of the past twenty years and the most desirable model of future relations between the market and the state, attracted the attendance of the most prominent figures from the field of Polish economics, politics and business.

2010 brought a string of awards for our activities, as the Company's market position, investor relations and corporate governance were recognised and lauded. Research firm Platts

ranked PKN ORLEN at a high, eighth place among the world's refiners in terms of the Refining and Marketing segment's financial performance, and ORLEN was named the most valuable Polish brand, topping the ranking compiled by the *Rzeczpospolita* daily. In addition, the *Euromoney* magazine selected PKN ORLEN as the best managed Central European firm, while the *IR* magazine awarded us for the quality of our investor relations. We also won the *IT Leader* title as a token of recognition for the best implementation of IT solutions to support the industrial sector. In 2010, PKN ORLEN also remained among the select few names listed on the Warsaw Stock Exchange as part of the Respect Index, a distinction granted only to 16 companies demonstrating the strongest adherence to CSR principles.

I believe we can look at the past 12 months as one of the most successful periods in the Company's history. Even though the macroeconomic climate, on which our performance largely depends, was not as sound and stable as three or four years before, the Company's condition has been increasingly improving. Thanks to our robust financial standing, record-high efficiency and steadily growing sales – the fruit of efforts implemented consistently over the past three years – we are excellently placed to continue operations in a more clement business environment.

I am deeply grateful for the hard work put in by the Supervisory Board, the Management Board, as well as all the Company's employees, in what was a truly challenging time. Thanks to their efforts, which ultimately contribute to the Company's performance, we can look forward to 2011 with well-founded optimism.

Dariusz Jacek Krawiec
President of the Management Board, CEO
PKN ORLEN S.A.